

M e m o r a n d u m

To: Panel Members

Date: 9/25/2003

From: Ruby Cohen, Manager

Analyst: J. Daunt

Subject: One-Step Agreement for **Best Buy Company, Inc.**

CONTRACTOR:

- Training Project Profile: Retraining: companies w/out-of-state competition
Training in High Unemployment Areas of CA
- Legislative Priorities: Stimulating Exports/Imports
Moving to a High Performance Workplace
- Type of Industry: Retail Distribution
- Repeat Contractor: Yes
- Contractor's Full-Time Employees
 - *Worldwide:* 75,000
 - *In California:* 2,000
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: \$295,880
- Substantial Contribution: \$0
- Total ETP Funding: \$295,880
- Total In-kind Contribution: \$321,000
 - *Trainee Wages Paid During Training:* \$306,000
 - *Other Contributions:* \$15,000
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Tulare

INTRODUCTION:

Best Buy Distribution Center in Dinuba, a part of Best Buy Company, Inc., is a facility for the receiving and distribution of Best Buy products throughout the Western United States. The applicant qualifies under Title 22, California Code of Regulations, Section 4416(a)(3, 4), as a single employer providing a service out-of-state and providing a service in the state in competition with providers of the same service which are located outside the state. Because Best Buy has undergone significant growth in the last three to five years, including an expansion of the Dinuba facility's workforce, company officials are proposing a comprehensive training program for Dinuba employees in order to better manage the facility's expansion.

MEETING ETP GOALS AND OBJECTIVES:

Best Buy Company, Inc., proposes training that will further the following ETP goals and objectives:

- 1) Training is targeted to meet Best Buy's need for skilled warehouse and distribution workers as a crucial component in the company's retail functions, in order to foster job retention in an increasingly competitive marketplace.
- 2) Training is designed to enhance the occupational skills of workers in order to prepare them for progress toward a high performance workplace.
- 3) Training will increase the impact of ETP funds on the state's economy by supporting the continuing growth of a California business which employs a workforce of significant size in an area of high unemployment.

TRAINING PLAN TABLE:

Job Number / Trainee Type	Types Of Training	No. Retain	No. Class / Lab Video-conf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 90 Days
1 / Retrainee	Menu: Business Skills Computer Skills Continuous Improvement Management Skills	40	114	0	\$1,482	*\$10.98-\$21.90
2 / Retrainee	Menu: Business Skills Continuous Improvement Manufacturing Skills	200	56	0	\$728	*\$10.98-\$15.00
3 / Retrainee	Menu: Continuous Improvement Manufacturing Skills	75	80	0	\$1,040	*\$10.98-\$15.00
4 / Retrainee	Maintenance Skills (Other Titles)	15	40	0	\$520	*\$10.98-\$21.90
5 / Retrainee	Menu: Computer Skills Continuous Improvement Manufacturing Skills	10	40	0	\$520	*\$10.98-\$16.40
					<u>Prevalent Hourly Wage</u>	
					\$11.01	
					<u>Average Cost Per Trainee</u>	
					\$870	
<u>Health Benefits Used To Meet ETP Minimum Wage:</u> * Employer-paid health, dental, and/or vision benefits of at least \$2.33 will be added to the trainee's wages to meet the ETP required minimum hourly rate.					<u>Turnover Rate</u> 9%	<u>% Of Mgrs & Supervisors To Be Trained:</u> 12%
<u>Other Employee Benefits:</u> In addition to medical, dental and vision benefits, Best Buy's employer-paid benefits include paid sick leave, paid vacation leave, disability, life insurance, pension/retirement.						

COMMENTS / ISSUES:

➤ *Frontline Workers*

Out of a total of 340 trainees, 320 participants in this project meet the Panel definition of frontline workers under Title 22, California Code of Regulations, Section 4400(ee). The remaining twenty (20) participants are supervisors.

➤ *Production During Training*

The proposed Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

➤ *Frontline Work Performed by Leads*

The warehouse leads in Job 1 are frontline workers whose primary duties consist of directly providing services to both internal and external customers.

➤ *Management Skills*

Management skills training will be provided only to supervisors and warehouse leads. Any management skills training provided to a trainee who is not a supervisor or a warehouse lead will not be funded by ETP.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement if funding is available and the project meets the Panel priorities.

NARRATIVE:

Founded in 1966 as "The Sound of Music," an audio products retailer, the company was renamed Best Buy in 1983 and expanded to include video products. With headquarters in Minneapolis, Minnesota, Best Buy Company, Inc., has grown to become a nationwide chain of large retail facilities, specializing in digital technology and entertainment products.

Best Buy's Dinuba distribution facility, which opened in 1999, was designed to serve as supplier and distributor for 60 to 70 Best Buy retail outlets located throughout California, Nevada, Arizona, and New Mexico. That number has doubled to approximately 120 retail locations served. Currently, the Dinuba distribution facility is expanding to a full-time staff of approximately 350, creating approximately 75 new jobs in Tulare County, an area with an unemployment rate more than double the current statewide rate (July 2003 figures).

NARRATIVE (continued)

In addition to its rapid growth, other changes are occurring at the applicant's Dinuba facility. Workers are now responsible for distributing a new line of high-fidelity stereo equipment that requires special handling. The company has also started its e-business (BestBuyDot.com), which demands faster turnaround of orders than previously required of employees. Finally, because the facility serves double the number of customers over the level served in 2001, much of Best Buy Dinuba's procedures and equipment have become obsolete, along with training originally provided for earlier processes.

Best Buy officials have determined that training is necessary. They are proposing a program to train 340 employees in new job skills at the company's Dinuba distribution facility.

Business Skills will be provided to trainees in Jobs 1 and 2 – supervisors, warehouse leads, and warehouse workers. Company officials state that this training is intended to equip trainees with the interpersonal skills necessary to communicate new methods and processes to anyone in the workforce, to evaluate processes and procedures, and to write and edit business reports. The training is also designed to help reduce possible conflict and increase teamwork throughout the facility.

Continuous Improvement will be provided to trainees in Jobs 1, 2, and 5 – warehouse leads, warehouse workers, administrative support staff, and supervisors. Company officials state that this training will allow trainees to assess and improve processes and to document proposed improvements in company-wide processes for distribution to the general worker population.

Manufacturing Skills will be provided to trainees in Jobs 2, 3, and 5 – warehouse workers. Company officials state that the training is designed to improve employees' knowledge of equipment and procedures, to minimize errors, and enhance the center's overall efficiency. Most trainees will receive training in technical math skills to improve the accuracy of inventory counts and shipments.

Computer Skills will be provided to trainees in Job 1 – supervisors and warehouse leads – and will, according to company officials, allow trainees to develop reports, charts, and presentations electronically, in order to create up-to-date, standardized processes that can be regularly modified as needed in an efficient manner.

Maintenance Skills will be provided to Job 4 – maintenance personnel – and will consist of training on new maintenance techniques and procedures so that all equipment at the company's Dinuba Center is maintained in a more efficient manner than has previously been possible, resulting in greater output and uptime. Job 4 trainees are requiring 40 hours class/lab training.

Management Skills will be provided to Job 1 trainees – supervisors and warehouse leads – to provide instruction in managing conflict, dealing with difficult situations, motivating employees and measuring performance through formal appraisal processes. In addition, according to company officials, leads will receive leadership skills to help them lead their peers and train them in new technologies and processes without benefit of formal rank.

Supplemental Nature of Training

Panel Legislation requires that ETP funds be used to supplement, rather than displace, funds available through existing programs conducted by employers and government-funded programs.

Best Buy at its Dinuba facility currently provides on-the-job training on an as-needed basis to new workers in specific warehouse and distribution functions. According to company officials, classroom training seldom occurs. In addition, training was provided to Best Buy Dinuba workers at a more basic and elementary level than the training contained in the curriculum of the company's current proposal.

According to company officials, the new training included in this proposal contrasts with training the company provided in its previous ETP Agreement because much of the company's equipment, procedures, inventory, and methods of customer service (including e-commerce) have changed within the past two to three years. The primary goal of the training included in this proposal, according to Best Buy officials, is to provide workers with the knowledge and occupational skills necessary for them to fully utilize the improvements being made to the company's warehousing and distribution operations. Company officials have determined that the most efficient way to achieve this goal is through a facility-wide classroom-laboratory training program that is significantly more thorough than the training currently provided on an on-the-job, as-needed basis.

Best Buy officials state that, in the two years following the term of an ETP Agreement, the total training expenditure for workers facility-wide at Best Buy's Dinuba Distribution Center is expected to be approximately \$250,000. Best Buy will not receive training funds from any other source.

SUBCONTRACTORS:

National Training Systems, Inc., Laguna Niguel, California, \$35,505, administration.

THIRD PARTY SERVICES:

National Training Systems, Inc., assisted in the preparation of the application, training plan, and application documents for a flat rate of \$15,000.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

PRIOR PROJECTS				
Agreement Number	Location (City)	Percent Earned	<i>Planned</i> In-kind Contribution	<i>Reported</i> In-kind Contribution
ET9-0925 Retraining	Dinuba, California	73.9%*	\$245,000	\$182,000

PRIOR PROJECTS: (continued)

* Best Buy representatives have reported that performance under this training contract was not optimal because at that time, company officials were not prepared to perform the administrative duties required to fully implement the ETP program. Best Buy officials do not anticipate any recurrence of this situation during the proposed program, because of their experience under the previous program and because they have hired the services of a third-party administrator.

BEST BUY – DINUBA – 2
MENU CURRICULUM

Class/Lab Hours

Job 1: 114
Job 2: 56
Job 3: 80
Job 4: 40
Job 5: 40

Trainees will receive any of the following:

BUSINESS SKILLS

Communication

- Phone Skills
- Presentation and Writing
- Electronic Communication
- Verbal Skills
- Interpersonal Skills

Identifying Procedures

- Identifying Tasks
- First Outline
- Customer Sign-off
- Subject Matter Experts
- Data Collection
- Photographic Documentation
- Training Methods
- Performance Evaluation

COMPUTER SKILLS

Microsoft Office Skills
File Management

CONTINUOUS IMPROVEMENT SKILLS

Customer Service

- Order Processing System
- Exceeding Expectations

Problem Solving

BEST BUY – DINUBA – 2
MENU CURRICULUM (continued)

MANUFACTURING SKILLS

Equipment and Machine Operation
Material Handling (loading/unloading)
Improved Operating Procedures
Radio Frequency (RF) Device
Forklift Skills
Habits of Effective Employees
Technical Terminology
Technical Math Skills
Receiving Systems and Operations
Productivity/Reasonable Expectancy (R/E) Program
Warehouse Planning and Layout
Repack Module Locations
Full Case Module Locations
Pallet Racking & Bulk Locations
Inventory Control / Quality Control (ICQC)
Shipping Systems and Operations

MAINTENANCE SKILLS (OTHER SKILLS) (Job 4 trainees only)

Interlake Storage System
Rapistan Conveyor Systems
Crown Material Handling Systems
Building Maintenance
Maintenance Management

MANAGEMENT SKILLS (Job 1 trainees only)

Leadership Skills

- Roles & Responsibilities
- Coaching & Counseling
- Building a Collaborative Workplace
- Organizational Performance